

OCT 5 1984

Dear Ladies and Gentlemen

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(7) of the Internal Revenue Code. We have also considered the information furnished in your letters dated

You were incorporated [REDACTED] to own, operate and maintain a golf club exclusively for the pleasure and recreation of your members. Your Articles of Incorporation provide that you will have three classes of members; [REDACTED] nonvoting charter members, [REDACTED] nonvoting regular members, and [REDACTED] voting members. Your By-Laws provide that these members are "residential members" who are owners of a residential lot in [REDACTED].

Your By-Laws provide that all members have the right to enjoy the full social and recreational facilities offered by the club. All voting members have a right to one vote in any regular or special meetings of the club. A quorum of any meeting of the members is set at one-third of the votes entitled to be cast. Adoption of any matter requires the vote of a majority of the voters present at any meeting. The By-Laws also provide that your governing body may in its discretion provide for a social membership which will allow such member to use the club's dining room facilities for a fee. Such social members shall be considered guests of the club. It has no membership rights, shall not attend meetings of members, and shall not vote.

The following is the original Report of the case of the Wardresser and the
F. W. Wardresser, of [REDACTED] on the 1st day of January, 1911.

[REDACTED] to be first consultant and later [REDACTED] to be [REDACTED]

Some further information that [REDACTED] is part of [REDACTED] The development of [REDACTED] has been [REDACTED] and the real estate development of [REDACTED] has been [REDACTED] and the real estate development of [REDACTED] has been [REDACTED]

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Form 10-37-A Rev. 6-82 Correspondence Approval and Clearance

Department of the Treasury, Internal Revenue Service

[REDACTED]

based on the country club's continuing operations. The local economic development process should be completed within one to two years after the time of the real estate process. In addition, it is the intention of the developer to pass control of the country club to the members, i.e., the voting members and stockholders of the local corporation, thus preventing the real estate subdivision and country club through a partnership in the area of recreation.

Section 501(c)(7) of the tax provision applies to clubs organized for pleasure, recreation, and other non-profitable purposes substantially all of the activities of which are for such purpose and no part of the net earnings of which accrue to the benefit of any private shareholder.

The regulations provide that, in general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club organization failing to qualify will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Revenue Ruling 56-508, 1958-2 Cumulative Bulletin 205, holds that an organization controlled by a few active voting members with many non-voting members whose only right is to use the club's facilities is not a tax-exempt society club within the meaning of section 501(c)(7) of the Code.

Revenue Ruling 78-48, 1978-1 Cumulative Bulletin 105, holds that a social club where active voting members pay substantially lower dues than unvoting inactive members who outnumber the voting members about 4 to 1, does not qualify for exemption under section 501(c)(7) of the Code.

Revenue Ruling 65-347, 1965-1 Cumulative Bulletin 146, holds that a club that contemplates that clubs failing within the orbit of section 501(c)(7) of the Code are designed principally to provide for the pleasure and recreation of members. These activities may be supported by funds obtained from members such as dues, assessments, and payment for the use of club facilities. However, to the extent that income is derived from non-members, i.e., those in the benefit of the members of such activities, members then become participants, as non-members, it is considered that they are receiving a benefit from such activities with exemption under section 501(c)(7).

Revenue Ruling 65-347, 1965-1 Cumulative Bulletin 146, holds that a club will be formed and controlled by a local corporation and organized as a social club if the club's assets under section 501(c)(7) of the Code.

Revenue Ruling 66-360, 1966-2 Cumulative Bulletin 174, holds that a club will be created and controlled by a business corporation if it is organized to serve the business and financial interests of the business corporation, the club is not qualified for exemption under section 501(c)(7) of the Code.

Revenue Ruling 68-381, 1968-1 Cumulative Bulletin 195, provides that a club must keep its activities with its membership to a minimum. This is intended to ensure that under the law, participation in a sharing of members

[REDACTED]

have equal voting rights, and the developer is not involved in the operation, maintenance or management of the facilities, such a club is entitled to exemption under section 501(c)(7) of the Code.

Your club is the creature of the developer, controlled by the developer through the [REDACTED] voting members, and will be retained by the developer to serve the business interest of the developer. Also, your letter of [REDACTED] presents information that supports a conclusion that the developer, not the members, is underwriting the current operating losses of the club and thereby contributing to the benefit of the members. Your President stated that "as [applying the three voting members representing the developer] feel that we should have control over the amount of funds being spent so the [REDACTED] club will it is in a deficit position." Based on the information presented, you are not operating as a membership "club" within the contemplation of section 501(c)(7), and Revenue Ruling 69-251, but are operating in an adjunct to a business organization.

Accordingly, we conclude that you do not qualify for exemption under section 501(c)(7) of the Code, or any other section of the Code and should be filing income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 60 days from the date of this letter, file a brief on the facts, law and a reason that clearly sets forth your position. If you desire a oral discussion of the issues, please indicate this in your protest. The enclosed form 1120 instructions for filing is attached.

If you do not file a protest with this office within 60 days of this letter, this proposed determination will become final.